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Greetings!

Welcome to the September 2017 issue of The Bean Counters' Quarterly!

Well, the weather has been telling us one thing, and the calendar another...summer was officially done, but we were enjoying some of the best weather of the entire season. However, now we're seeing more normal temps and that reminds us that we are, indeed, in the Fall season with Fall fairs and Thanksgiving just around the corner. We hope you'll have time to relax in warm, cozy environments, get outside with sweaters and jackets, and enjoy the bounty of the Harvest!

Perhaps you'll have time to read our September issue with a warm cup of pumpkin spice latte or enjoy some warm apple pie.

You'll want to read Linda's response to our **Dialogue** question, asking her about the new year or new school year?

Also in our **About Us**, you can read about how most of the team spent their precious summer days and also how they might plan to enjoy the Fall weather or colours or activities. Also take a quick look at the Fun Page on our website, as we have posted some great pics (Derek's daughter 'flying', picturesque Jasper, etc)

In the Reading Recommendation section, you'll find powerful information to help you run your business better than you ever have in '**TRACTION: Get A Grip On Your Business**' .

On behalf of the team at Kirkham CA's, we wish you a warm, fun, cozy Fall with family/friend activities!.

Steve Kirkham

The Dialogue Department!

The idea is to open the lines of communication on a topic or question that may be light and breezy or deep and serious, in an otherwise busy and hurried world. We'll start on

our end by telling you about our thoughts on a particular topic or question, and then we'll wait to hear back from you - just hit the link "Here's What I Have to Say" and send us a quick reply.

Here's our question/topic for this issue:

"To young people and parents, September is often a time of new beginnings (start of school year for so many years), now that your kids are grown do you still have that feeling of a new year? What does it mean for you?"

Our reply for this quarter is from **LINDA HARRIS:**

"September still retains that feeling of getting ready to start another year. Having spent twenty plus years getting my children prepared for the new school year has ingrained that feeling in me. Can't say it will ever change; I hope it does not."

Here's What I Have To Say - (send reply to) < xu>steve@kirkhamca.ca

Proposed Tax Changes

Proposed tax changes would shake the small-business world

by Tim Cestnick, Special to the Globe And Mail on July 20, 2017

Ever since the 2017 federal budget in March, when the government announced that tax changes affecting private corporations would be coming, I've been feeling queasy. Well, the proposed tax changes were announced by Bill Morneau, the Finance Minister, on Tuesday. And ugly they are. Here's a primer on the potential changes.

The overview

Mr. Morneau announced in the budget back in March that the Liberals have not been pleased with some Canadians who are using corporations in their tax planning, and that changes would be made. The claim is that certain folks are using corporations to pay less than their fair share of taxes. While the proposed changes are meant to affect the wealthy, there will be no shortage of small-business owners, the backbone of the Canadian economy, who will be significantly worse off as a result.

The proposals

There are three tax-planning tactics the government is looking to shut down:

Income sprinkling

Some business owners sprinkle income to family members by way of salary or wages, or dividends, to reduce the family's overall tax burden. There are already rules in place to prevent unreasonable salary or wages from being paid to family members who are not truly earning the compensation they receive. There are even "kiddie tax" rules to prevent dividends paid to minor children from being taxed at their lower rates.

So, what's changing? The government wants to now restrict the ability to pay salary or wages, or dividends, to adult children between the ages of 18 and 24, by extending the "kiddie tax" rules - formally called the "tax on split income" (TOSI) - to

them. The proposals will apply a "reasonableness test" that will assess the adult child's contributions to the business (both labour and capital) in determining whether amounts paid to that child should be taxed at his or her normal tax rates, or at the highest tax rate possible.

In the past, families have also taken advantage of the lifetime capital gains exemption (LCGE), which shelters from tax up to \$835,716, in 2017, of capital gains on qualifying small-business corporation shares). Good tax planning has seen the LCGE of each family member used to shelter gains on the family business. The government has proposed to restrict this. Starting after 2017, capital gains realized by a family member can no longer be sheltered with the LCGE to the extent those gains accrued while the individual was a minor. Further, any capital gains accrued while the shares are held in a family trust, or gains subject to the TOSI would not be eligible for shelter using the LCGE.

Finally, in the past, the TOSI (which you'll recall is a special tax, at the highest rate going, that applies to certain income reported in the hands of children) has not applied to second generation income - that is, income on income. So, if a corporation paid, say \$100 in dividends to a child, and the child paid the highest rate of tax (the TOSI) of, say, \$40, there would be \$60 left after taxes. That \$60 could be invested and any income in the future on that \$60 (income on the income) would not be subject to the high rate of tax (the TOSI). This will change if the new proposals are enacted. All future income (income on any income) will be subject to the same high rate tax (the TOSI). Confused yet?

Passive income

When a corporation generates income, it's eligible for a pretty attractive rate of tax (about 15 per cent, but it varies by province) on the first \$500,000 (federally) of active business income. If a business owner doesn't need all of his earnings to support his lifestyle, it's common to leave the rest in the corporation to invest - perhaps in a portfolio earning passive income. For example, if you earn \$100 in active business income and pay \$15 of that to the taxman, you'd have \$85 left to invest in the corporation. If you had earned that business income personally, and you're in the highest tax bracket (a marginal tax rate of about 50 per cent), you'd be left with just \$50 to invest. So, there's an advantage to earning business income in a corporation if you earn enough that you won't spend it all.

The government thinks this is unfair, notwithstanding that you'll actually pay more tax over all if you invest inside the corporation and then eventually pay that income out to yourself as dividends later. That's right, corporate tax rates on passive income are high even under today's rules - don't let the government tell you otherwise. So, the only meaningful benefit is the larger amount to invest up front as noted in my example above. It appears that the government believes that having more money working for you today, if you have a corporation, is offensive (so much for helping Canadians save for the future).

The government is exploring how to limit the perceived benefit of leaving excess earnings inside a corporation to grow in a passive portfolio. Mr. Morneau is looking for comments from Canadians on a couple of primary options: (1) implementing a refundable tax that would apply to ineligible investments (the tax would be refunded once the capital is either paid out to you as taxable dividends personally, or is used in the active business), or (2) change the current refundable tax system on annual passive income so that the tax is no longer refundable if the investments were made with excess business income taxed at low rates. How does all of this simplify our tax system?

Converting income to capital gains

Some corporate owners have taken steps to convert what would otherwise be taxed as salary or dividends into capital gains. This has been done using a complex set of steps involving selling of some shares to another company related to the shareholder. The government proposes to close these opportunities by tweaking section 84.1 of our tax law, which was intended to prevent this type of planning but doesn't quite do the trick. On this one, I think the changes make sense.

If you're so inclined, read over the 63-page consultation paper that outlines these proposed changes (available on the Department of Finance website). In my view, what you'll find are a lot of changes that will do nothing but make our convoluted tax law even more complex.

Tim Cestnick, FCPA, FCA, CPA(IL), CFP, TEP, is an author and founder of Water Street Family Offices.

[Proposed Tax Changes for Private Corporations](#)

Spotlight On KIRKHAM Accounting & Tax Services

KIRKHAM Accounting and Tax Services

We think the Fall is a great time to dig a little deeper into your business and we would be thrilled to offer opportunities to consult and provide services in the areas of Accounting, Corporate Tax, and/or Bookkeeping. If you need assistance in these areas, or would like to discuss if we can offer more services to help your business even more, please let us know and we'd be happy to setup a meeting between now and the end of the year. We often find that once we sit down to discuss your business needs, you'll be surprised at what we can offer and how it can help your business.

Whether your business is mature, brand new or somewhere in the middle, there are unique challenges to each stage of business. We can tailor our services to fit your business needs. We've been helping our clients for over 20 years!!

www.KIRKHAMCA.ca

Recommended Reading:

TRACTION: Get A Grip On Your Business

By Gino Wickman

Do you have a grip on your business, or does your business have a grip on you?

All entrepreneurs and business leaders face similar frustrations - personnel conflict, profit woes, and inadequate growth. Decisions never seem to get made, or, once made, fail to be properly implemented. But there is a solution. It's not complicated or theoretical. The Entrepreneurial Operating System® is a practical method for achieving the business success you have always envisioned. More than 2,000 companies have discovered what EOS can do.

In Traction, you'll learn the secrets of strengthening the six key components of your business. You'll discover simple yet powerful ways to run your company that will give you and your leadership team more focus, more growth, and more enjoyment. Successful companies are applying Traction every day to run profitable, frustration-free businesses - and you can too.

For an illustrative, real-world lesson on how to apply Traction to your business, check out its companion book, *Get A Grip*.

[TRACTION: Get A Grip On Your Business](#)

Stuff To Know About Our Team

-Sherry says her two nephews came to visit all the way from Grande Prairie, Alberta. So for one week in August, they ran from place to place having a ball. When they weren't out galivanting, they were in the backyard pool. It was great. Then at the end of August she spent a weekend at a cottage with her mother in law, sister in law and her best friend. They do this every year and have a blast every time. Her husband, Grant also did the Edge Walk at the CN Tower this summer. She couldn't do it but he was quite fine hanging out there. They also got tickets to see the Zac Brown Band so they had quite the summer. Of course, there's more but this gives you a good idea what she's been up to. She hopes everyone else had an adventure or two to remember.

-Linda says her whole family just returned from a hiking trip to Jasper National Park. What an awesome place to celebrate Canada 150 and hike to the "red chairs" at various locations, whether on a mountain top facing a glacier or alongside an emerald lake. They experienced sun, rain, cool weather and SNOW!!!! How nice to be back here at the end of September and warm up again!

-Ana says Summer went by very quickly. Lots of exciting things happening in their lives with the birth of 2 great nephews, 1 great niece and the news of 2 additions expected in the new year. Yes they are experiencing a baby boom!

She and her husband spent time at the cottage this summer. The weather wasn't great but it was relaxing. The highlight of our time at the cottage was when her husband caught a 25 inch pickerel. Boy was he mad when he had to release it due to fishing regulations.

Now that fall is here, even though it is FINALLY HOT, the dreaded "R" word has reared its ugly head again. Yes - renovations. They bit the bullet and called a contractor and have started the process of updating the guest bathroom which leads to painting and carpeting the upstairs etc., etc. Her husband has already hinted at more renovations for the new year, which she doesn't want to think about. She told him it would be easier to move. Oh well she'll just have to see what the new year brings?!

-Andre says that summer was a great time for his kids. Martina had summer school and William joined a badminton camp. On the family front, though it was busy, their family trips consisted of paddling at Grand River and going to Horseshoe resort at Barrie.

-Derek says, to quote a book, which was first published in 1963 by Helen Palmer (1st wife of Theodore Seuss), "Do you know what I'm going to do next Saturday? Well, sir, let me tell you!" The book is about a young boy who tells a tale of all the adventures he's going to have. Derek is trying to encourage the same adventurous spirit in Paige so he recently took her to iFly in Mississauga. It's an indoor skydiving wind tunnel and

if you haven't tried it, you should. Paige's huge, toothy grin during the whole visit was proof of just how much fun she had. After a wonderful summer, it's back to regular programming as Paige goes back to school and Laura starts her tap classes again. The treehouse project is looking great. Just need to add a front door and some screens to get it ready for winter. Next up for Derek - Edge Walk at the CN Tower. "I'm going to go up high if I want to. And I want to."

-Steve says although the "real" summer seems to be hitting us late this year, "regular" summer was pretty good for Steve and the family too. Taking advantage of somewhat slow times in August, Steve was able to spend a lot of time down at the cabins, in and around the water. The wakeboarding and wake surfing was great for everyone, and always good to have a few new people around to watch them "get up and go" for the first time! Paired with some good sibling time, sharing meals, games and laughs, Steve will remember it as a good summer. Now into the annual back to school/work schedule, the family is settling into some new roles. Erin is back home and working in the landscaping/forestry field hoping to get enough under her belt to perhaps venture west next year to the mountains. Justin has moved to his off-campus house as he starts his second year at Laurier and Gavin has moved to the ranks of high school, starting his grade nine year. Sherry has been doing some part-time landscaping and is also starting back to her role as a coach for the OAK swim club for the 2017/18 season. A lot has gone on and the time flies even faster these days, next stop, Christmas (but we get to spend it in Mexico this year, so kinda looking forward to it!).

Quick Links...

- [The_Bean_Counters'_Quarterly_Home_Website](#)
- [More About Steve Kirkham C.A. and Our Team](#)
- [Canada Revenue Agency - for Business](#)
- [View previous issues of our Bean_Counters'_Quarterly](#)

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